

## Message Text

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FM AMEMBASSY ATHENS

TO SECSTATE WASHDC PRIORITY 1981

INFO AMEMBASSY ANKARA

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USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 1 OF 2 ATHENS 002

3EO 11652: GDS

TAGS: EGEN GR

SUBJECT: GREECE - AN OVERALL LOOK AT THE ECONOMIC  
LANDSCAPE AS WE ENTER 1976

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SUMMARY: IN THE CONTEXT OF GREECE'S 1974 SLUMP, CONTINUING TENSION WITH TURKEY, AND THE STATE OF WESTERN ECONOMIES IN GENERAL, 1975 WAS A FAVORABLE YEAR FOR THE GREEK ECONOMY. THE GOG AIMED, WITH CONSIDERABLE SUCCESS, AT STIMULATING MODEST REAL GNP GROWTH, CONTROLLING INFLATION, AND MINIMIZING THE SERIOUSNESS OF THE BALANCE OF PAYMENTS DEFICIT. IN 1976, THE GOG WILL ENCOURAGE THE STILL FRAGILE TREND TOWARD ECONOMIC RECOVERY WITH A MODERATELY EXPANSIONARY FISCAL AND CREDIT POLICY, AND HOPES TO ACHIEVE REAL GNP GROWTH OF ABOUT FOUR PERCENT WHILE KEEPING INFLATION DOWN TO 10 TO 12 PERCENT. THE BALANCE OF PAYMENTS WILL CONTINUE TO POSE GREECE'S MOST SERIOUS ECONOMIC PROBLEM IN 1976, AND WE ANTICIPATE THE NECESSITY FOR OFFICIAL BORROWING SIMILAR TO 1975 LEVELS (ESTIMATED AT ABOUT \$800 MILLION.)

WHILE COPING WITH 1975'S IMMEDIATE PROBLEMS, THE CARAMANLIS GOVERNMENT ALSO LAUNCHED THE FIRST MEDIUM-RANGE ECONOMIC PLAN FOR GREECE SINCE 1968, AIMED AT STRUCTURAL REFORM IN A PROGRESSIVE SOCIAL/ECONOMIC CONTEXT. THIS PLAN WILL ATTEMPT TO COMBINE GREATER PUBLIC SECTOR INVOLVEMENT IN THE DEVELOPMENT PROCESS WITH THE ACKNOWLEDGED BENEFITS OF A PRIVATE ENTERPRISE MARKET ECONOMY AND FOREIGN INVESTMENT AND TECHNOLOGY. THE GOVERNMENT PLANS TO STIMULATE EXPORT GROWTH AND IMPORT SUBSTITUTION (ESPECIALLY ENERGY RESOURCES), AS WELL AS TO ENCOURAGE FOREIGN CAPITAL INFLOW, AND HOPES THIS WILL LEAD TO AN AMELIORATION OF THE BALANCE OF PAYMENTS PROBLEM BY THE END OF THE FIVE YEAR PLAN (1980).

PRESIDENT FORD'S REQUEST TO CONGRESS THIS WINTER FOR A \$225 MILLION PACKAGE OF ECONOMIC AND MILITARY ASSISTANCE DURING THIS CRITICAL TRANSITIONAL PERIOD HAS CONTRIBUTED SIGNIFICANTLY TO THE STRENGTHENING OF OUR BILATERAL RELATIONS. IN ADDITION, VISITS BY TOP EXIMBANK EXECUTIVES CASEY AND TUTINO HIGHLIGHTED US WILLINGNESS TO HELP FINANCE IMPORTS ESSENTIAL TO GREEK ECONOMIC DEVELOPMENT, AND CONFIRMED THAT INCREASED EXIMBANK EXPOSURE CAN IMPROVE US

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COMPETITIVENESS IN THE GROWING GREEK MARKET. SERIOUS NEGOTIATIONS ON GREECE'S APPLICATION FOR FULL MEMBERSHIP IN THE EC WILL PROBABLY NOT BEGIN UNTIL LATE 1976, AND THE ECONOMIC/POLITICAL STRAINS INVOLVED IN HARMONIZATION OF POLICIES -- ESPECIALLY IN THE AGRICULTURAL SECTOR -- MAY THEN BECOME MORE APPARENT. END SUMMARY.

1. IN JAN 75, THE THEN NEWLY ESTABLISHED CARAMANLIS

GOVT FOUND ITSELF CONFRONTED WITH SERIOUS ECONOMIC DIFFICULTIES, IN ADDITION TO COMPLEX DOMESTIC AND INTERNATIONAL POLITICAL PROBLEMS. TWELVE MONTHS LATER, MANY PROBLEMS REMAIN, BUT GOG ECONOMIC POLICYMAKERS CAN LOOK BACK ON A RATHER SUCCESSFUL YEAR AND LOOK FORWARD TO PROBABLE CONTINUED PROGRESS. THEIR ACCOMPLISHMENTS ARE THE MORE IMPRESSIVE WHEN VIEWED IN THE CONTEXT OF CONTINUED TENSION IN RELATIONS WITH TURKEY, THE SLOWER THAN ORIGINALLY EXPECTED RECOVERY OF OTHER WESTERN ECONOMIES, AND THE DISORDERED ECONOMIC LEGACY OF THE LAST DAYS OF THE JUNTA. PROSPECTS FOR 1976, AGAINST THE BACKGROUND OF DEVELOPMENTS IN 1975, FOLLOW:

5. GNP: DUE TO CONSTRAINTS IMPOSED BY INFLATION AND BALANCE OF PAYMENTS PROBLEMS, THE GOG IMPLEMENTED ONLY A MODERATELY REFLATIONARY FISCAL AND CREDIT POLICY, AIMED AT TWO TO THREE PERCENT REAL GNP GROWTH, IN 1975. A MODEST REVIVAL IN THE INDUSTRIAL AND CONSTRUCTION SECTORS, IMPROVEMENT IN MOST AREAS OF THE SERVICE SECTOR (EXCEPT SHIPPING), AND GENERALLY FAVORABLE AGRICULTURAL CONDITIONS HAVE PULLED THE ECONOMY OUT OF THE 1974 SLUMP (ATHENS A-180). THE GOG GROWTH TARGET HAS APPARENTLY BEEN ATTAINED, ALTHOUGH CONCLUSIVE STATISTICS WILL NOT BE AVAILABLE FOR SEVERAL MONTHS. THE GOVT HAS RAISED ITS SIGHTS FOR 1976 AND HOPES TO ACHIEVE REAL GROWTH OF ABOUT 4 PERCENT, WITH AN AVERAGE GROWTH FOR 1976-80 OF ABOUT 6 PERCENT (SEE PARA 7). THE 1976 BUDGET IS, LIKE 1975'S, MODERATELY EXPANSIONARY, WITH A 24 PERCENT RISE TO 172 BILLION DRACHS IN REGULAR BUDGET EXPENDITURES AND A 34 PC RISE IN THE DEFICIT FINANCED PUBLIC INVESTMENT BUDGET, TO 41 BILLION DRACHS (ATHENS 9550). THE NATIONAL DEFENSE ALLOCATION CONSTITUTES A HEAVY BURDEN AT ABOUT 48 BILLION DRACHS; EDUCATION AND SOCIAL SERVICES WILL

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ALSO SUBSTANTIALLY INCREASE. DOMESTIC DEMAND SEEMS TO BE ON THE UPSWING, DUE TO CATCH-UP WAGE INCREASES AND INCREASED CONFIDENCE IN THE POLITICAL/ECONOMIC SITUATION. INVESTMENT HAS NOT YET SHOWN SIGNIFICANT IMPROVEMENT, BUT THE ATMOSPHERE IN THE BUSINESS COMMUNITY IS MUCH BETTER THAN A YEAR AGO, AND THERE ARE SOME INDICATIONS THAT A TURN-ROUND IS IN PROCESS (SEE PARA 8).

3. INFLATION: EARLY IN 1975 THE GOG ANNOUNCED THAT IT WOULD SEEK TO HOLD PRICE INCREASES TO A MAXIMUM OF 15 PERCENT. SIGNIFICANT INCREASES IN IMPORT PRICES (IMPORTS EQUAL ABOUT 24 PC OF GNP), INDIRECT TAXES, AND WAGE LEVELS HAVE ADVERSELY AFFECTED THE COST OF LIVING, AND THE RISE IN THE CONSUMER PRICE INDEX MAY BE JUST OVER THE 15 PC TARGET. ASSUMING THAT THE INFLATION RATE

WILL DECLINE IN GREECE'S MAJOR TRADE PARTNERS, EXPECTATIONS FOR 1976 ARE FOR ABOUT A 10 TO 12 PERCENT INCREASE IN GREECE.

4. BALANCE OF PAYMENTS: WITH THE UPWARD TREND OF THE ECONOMY, THE BOP HAS REPLACED STAGNATION AS THE MOST SERIOUS GOG ECONOMIC CONCERN, AND SEEMS LIKELY TO REMAIN SO FOR THE NEXT FEW YEARS. THE TRADITIONAL TRADE DEFICIT IS EXPECTED TO REACH A NEW HIGH (ABOUT THREE BILLION DOLLARS) IN 1976. REASONABLY GOOD EXPORT SALES (UP ABOUT 15 PERCENT) AND A SMASHING TOURIST YEAR (RECEIPTS WILL EXCEED \$600 MILLION, UP OVER 40 PERCENT) HELPED OFFSET THE HEAVY IMPACT OF HIGHER IMPORT PRICES (ESPECIALLY FOR OIL), SUBSTANTIAL IMPORTS RELATED TO MILITARY MODERNIZATION, AND THE GROWING DEBT SERVICE BURDEN--NOW OVER \$600 MILLION (PUBLIC AND PRIVATE). EVEN SO, OFFICIAL BORROWING OF ABOUT \$800 MILLION WILL BE REQUIRED THIS YEAR TO KEEP RESERVES ABOVE THE LEVEL FOR TWO MONTHS IMPORTS. THE MAGNITUDE OF THE 1975 OFFICIAL BORROWING, AGAINST THE BACKGROUND OF \$450 MILLION AND \$500 MILLION IN 1973 AND 74, WORRIES THE GOG, BECAUSE NO EARLY RELIEF FROM THE FACTORS JUST MENTIONED IS IN SIGHT. THE GOVT IS SPURRING EXPORT DEVELOPMENT AND IMPORT SUBSTITUTION, PARTICULARLY IN ENERGY RESOURCES, AND BELIEVES THAT THE RESULTANT IMPROVEMENT IN THE TRADE BALANCE

TOGETHER WITH INCREASED FOREIGN CAPITAL INVESTMENT, WILL REDUCE THE DIMENSIONS OF THE BALANCE OF PAYMENTS PROBLEM  
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IN THE NEXT FEW YEARS. IN THE MEANTIME, GREEK LEADERS HOPE THAT SUFFICIENT MULTILATERAL AND BILATERAL ASSISTANCE WILL BE AVAILABLE TO INSURE THAT BALANCE OF PAYMENTS FACTORS DO NOT HINDER THE ECONOMIC GROWTH AND RESTRUCTURING CONSIDERED CONFIDENTIAL

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ESSENTIAL TO GREECE'S ECONOMIC VIABILITY AND SOCIAL AND POLITICAL STABILITY (ATHENS A-223). THE AVAILABILITY OF PROPOSED US ECONOMIC/MILITARY ASSISTANCE IN 1976, AND OF COMMERCIAL BANK CREDIT LINES AND POSSIBLE ASSISTNCE FROM THE IMF AND/OR OECD SAFETY NET, SHOULD GO A LONG WAY TOWARD COVERING THE OFFICIAL BORROWING REQUIREMENT IN 1976, WHICH THE EMBASSY ROUGHLY ESTIMATES AT \$800 MILLION.

5. RELATIONS WITH THE EUROPEAN COMMUNITY: PERHAPS THE MOST SIGNIFICANT LONG RANGE POLITICAL/ECONOMIC MEASURE TAKEN BYTHE GOG DUIRNG 1975 WAS THE FORMAL APPLICATION IN JUNE FOR EARLY ACCESSION TO THE EUROPEAN COMMUNITY. WHILE BOTH POLITICAL AND ENOMOCIC FACTORS PLAYED A ROLE IN MOTIVATING THIS MOVE, EVEN GOVERNMENT ECONOMIC EXPERTS CONCEDE THAT THE OVERRIDING CONSIDERATION WAS PM CARAMANLIS CONCEPT OF BINDING GREECE FIRMLY TO WESTERN EUROPE, A PROCESS WHICH

HE REPORTDLY REGARDS AS ESSENTIAL FOR THE EVOLUTION OF A STABLE GREEK DEMOCRACY. THE FINANCIAL ASSISTANCE WHICH FULL MEMBERSHIP ENTAILS IS UNDOUBTEDLY AN IMPORTANT INCENTIVE. GREEK OFFICIALS BELIEVE THAT THE EC COUNCIL OF MENISTERS WILL GIVE THEGREEN LIGHT FOR NEGOTIATIONS ON EARLY ACCESSION NO LATER THAN EARLY SPRING, AND HOPE THAT SERIOUS TALKS WILL COMMENCE BY EARLY FALL 1976. PERHAPS LESS REALISTICALLY WITH RESPECT TO TIMING, THEY FORESEE THE CONCLUSION OF NEGOTIATIONS AND THE RATIFICATION PROCEDURE BY THE END OF 1978, WITH ACCESSION ACCOMPLISHED IN EARLY 1979 (FOLLOWED BY A SPECIAL FIVE YEAR TRANSITIONAL PERIOD). THERE IS LITTLE HARD EVIDENCE AT PRESENT TO SUGGEST SIGNIFICANT ADVERSE EFFECTS OF EARLY ACCESSION ON US COMMERCIAL INTERESTS IN GREECE. AFTER THIRTEEN YEARS OF EVOLUTION, MOST OF THE TRADE EFFECT OF GREECE'S ENTRY INTO THE CUSTOMS UNION HAS ALREADY BEEN FELT, AND IT IS IMPROBABLE THAT THE EXISTING SCHEDULE FOR FOR THE DISMANTLING OF TARIFF BARRIERS AGAINST COMMON MARKET GOODS WILL BE DRAMATICALLY ALTERED. (IMPLICATIONS FOR SPECIFIC US EXPORTS WILL BECOME CLEARER AS NEGOTIATIONS EVOLVE.) GREEK INDUS-TRIALISTS EXPRESS CONFIDENCE THAT THEY CAN SUCCESSFULLY ADJUST TO THE EMBRACE OF THE EC, ALTHOUGH IT SEEMS OBVIOUS THAT MARGIONAL ENTERPRISES WILL HAVE DIFFICULTIES, AND THAT RATIONALIZATION, MERGERS, AND COMBINATIONS WITH FOREIGN CAPITAL AND TECHNOLOGY WILL BE ESSENTIAL TO MAINTAIN THE CONFIDENTIAL

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COMPETITIVENESS OF THE STILL-DEVELOPING LOCAL INDUSTRIAL SECTOR. ON BALANCE, IT MAY WELL BE THE GREEK FARMERS WHO GIVE THE GREATEST POLITICAL HEADACHES TO THE GOG, AS THE IMPLICATIONS OF POLICY HARMONIZATION TAKE ROOT IN THE COUNTRYSIDE (ATHENS 5780).

6. ECONOMIC RELATIONS WITH US: THE USG WILLINGNESS TO OFFER SIGNIFICANT BALANCE OF PAYMENTS ASSISTNCE AT A CRITICAL TIME HAS SERVED EFFECTIVELY TO UNDERSCORE TO GOG LEADERS OUR INTEREST IN THE ECONOMIC AND POLITICAL STABILITY OF GREECE, AND OUR DESIRE TO STRENGTHEN BILATERAL RELATIONS. THE VISITS OF EXIMBANK CHAIRMAN CASEY AND EXECUTIVE VICE PRESIDENT TUTINO FOCUSED ATTENTION ON SEVERAL MAJOR INVESTMENT PROJECTS AS WELL AS ON AUGMENTED USE OF LOCAL BANKS IN FINANCING IMPORTS FROM THE US. FAVORABLE PRESS PUBLICITY CONFIRMED US INTEREST IN ASSIST-ING GREECE WITH THE FINANCING OF IMPORTS ESSENTIAL TO ITS DEVELOPMENT PROCESS. INCREASED EXIMBANK EXPOSURE WILL ALSO CONTRIBUTE SIGNIFICANTLY TO THE PROMOTION OF US SALES IN GREECE'S GROWING MARKET.

7. FORWARD PLANNING: FOR THE FIRST TIME SINCE 1968 THE GOVT IS COMPILING A FIVE YEAR PLAN (1976-1980) TO

FOCUS ON MEDIUM AND LONGER RANGE PLANNING. THE EFFORT IS OF PARTICULAR IMPORTANCE GIVEN THE NEED TO DEVELOP A COORDINATED SCHEDULE FOR ADJUSTMENT TO THE ANTICIPATED EARLY ACCESSION TO THE COMMON MARKET. THE PLAN IS BEING FORMULATED WITH THE PARTICIPATION OF REPRESENTATIVES OF BUSINESS, LABOR AND THE FARM SECTOR, AND SHOULD BE READY FOR RELEASE IN MID-1976. ITS BASIC OBJECTIVE IS AN IMPROVED STANDARD OF LIVING THROUGH ECONOMIC GROWTH AND RESTRUCTURING, THE LATTER INCLUDING CONSOLIDATION AND MECHANIZATION IN THE AGRICULTURAL SECTOR, MODERNIZATION TO ACHIEVE INCREASED VALUE ADDED IN SECONDARY PRODUCTION, AND A GENERAL EMPHASIS ON EXPORTS AND IMPORT SUBSTITUTION. SPECIFIC GOALS INCLUDE AN AVERAGE REAL GNP GROWTH RATE OF ABOUT SIX PERCENT DURING THE PERIOD, WITH A STRONG UPWARD TREND IN INDUSTRIAL PRODUCTION.

8. INVESTMENT: PRIVATE INVESTMENT, BOTH DOMESTIC AND FOREIGN, WAS ADVERSELY AFFECTED BY GREEK-TURKISH  
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TENSION, BY THE POLITICAL AND ECONOMIC UNCERTAINTIES OF 1974 AND EARLY 1975, AND BY THE GENERAL ECONOMIC SLUMP OF THE WESTERN WORLD. ALTHOUGH GOG DEMAND FOR REVISION OF FIFTEEN LAW 2687 (BASIC FOREIGN INVESTMENT LAW) CONTRACTS SIGNED DURING THE JUNTA PERIOD CAUSED SOME INITIAL CONCERN TO POTENTIAL INVESTORS, THE REVISIONS REQUESTED ARE APPARENTLY BEING KEPT WITHIN LIMITS THAT ARE READILY NEGOTIABLE, AND THIS EPISODE SHOULD PASS WITHOUT NEGATIVE REPERCUSSIONS (ATHENS 9121). SIMILARLY, THE GOVT'S RECENT ASSUMPTION OF THE ADMINISTRATION OF THREE OF THE ANDREADIS GROUP BANKS AFTER FINDING EVIDENCE OF SERIOUS IRREGULARITIES CAUSED SOME TREMORS IN THE BUSINESS COMMUNITY, BUT THE GOG HAS EMPHASIZED THAT IT HAS NO INTENTION OF NATIONALIZING THE BANKING SYSTEM (ATHENS 9740). THE EMBASSY BELIEVES THESE EVENTS SHOULD BE VIEWED MORE AS ATTEMPTS TO RIGHT SOCIAL-ECONOMIC WRONGS OF THE PAST THAN AS EVIDENCE OF ANY BASIC CHANGE IN THE GOVERNMENT'S FREE MARKET PHILOSOPHY. GOG POLICYMAKERS REALIZE THE IMPORTANCE OF FOREIGN INVESTMENT AND TECHNOLOGY, AND HAVE PUBLICLY STRESSED THEIR INTEREST IN ATTRACTING MUTUALLY BENEFICIAL FOREIGN INVESTMENT. THEY BELIEVE THAT GREECE'S PROXIMITY TO MIDDLE EASTERN AND BALKAN MARKETS, A RELATIVELY CHEAP AND RELIABLE LABOR FORCE, AND PROSPECTIVE MEMBERSHIP IN THE EC, WILL ACT AS INCENTIVES TO FOREIGN INVESTMENT AS INTERNATIONAL CONDITIONS IMPROVE. IN ORDER TO FACILITATE PRIVATE INVESTMENT, THE GOVT HAS STREAMLINED THE INVESTMENT APPLICATION PROCESS, WITH AUTHORITY CENTRALIZED

IN THE MINISTRY OF COORDINATION. THE GOVT HAS ALSO SPONSORED THE FORMATION OF A BANKING CONSORTIUM DESIGNED TO STIMULATE AND CHANNEL DOMESTIC AND FOREIGN INVESTMENT INTO PRIORITY AREAS, PARTICULARLY INTO MINING AND CHEMICALS. A SIGNIFICANT NUMBER OF BUSINESS FIRMS WHICH HAD BEEN SITUATED IN BEIRUT HAVE MOVED OR ARE CONSIDERING MOVING THEIR REGIONAL HEADQUARTERS TO ATHENS UNDER LAW 89, UNDER-SCORING ATHENS' POTENTIAL AS A BUSINESS AND FINANCE CENTER OF THE EASTERN MEDITERRANEAN.

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9. DOLLAR-DRACHMA TIE: GREEK OFFICIALS BELIEVE THAT THE SEVERING OF THE DOLLAR-DRACHMA TIE WAS AN IMPORTANT FACTOR IN THE 1975 BALANCE OF PAYMENTS, ALTHOUGH THE EMBASSY BELIEVES THAT ITS EFFECT CAN BE OVERSTATED (SINCE SIGNIFICANT VARIATIONS FROM PREVIOUS PARITIES DID NOT BEGIN UNTIL MID-YEAR). IT IS TRUE, HOWEVER, THAT THE DEVALUATION OF THE DRACHMA -- SINCE MARCH, 18 PERCENT VERSUS THE DOLLAR AND FROM THREE TO ELEVEN PERCENT AGAINST THE CURRENCIES OF OTHER MAJOR TRADE PARTNERS--HAS IMPROVED GREECE'S COMPETITIVE EXPORT POSITION GOING INTO 1976. THE BREAKING OF THE LINK AVERTED THE SPECTOR OF DRACHMA REVALUATION AGAINST THE EC CURRENCIES, AND HAS GIVEN THE GOVERNMENT FLEXIBILITY IN EMPLOYING EXCHANGE RATE MANAGEMENT AS A TOOL OF ECONOMIC POLICY.  
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